

Gloves

A Long Winter

Highlights

- Oversupply and sub-optimal utilisation rates are likely to continue weighing on earnings recovery prospects.
- China manufacturers' aggressive capacity expansion are disrupting industry supply-demand equilibrium. Top-line remains under pressure from the weakening MYR/USD rate.
- The sector's risk-reward pay-off appears neutral with potential structural de-rating from China's capacity influx and aggressive expansion strategies. Maintain MARKET WEIGHT.

Analysis

- **Muted 1H26 on absence of re-rating catalysts.** For 1H26, we assess that sector's volume sales may see a 5-10% qoq growth, lifted by normalised US replenishment cycle. Nevertheless, this may be largely offset by a weakening MYR/USD rate (4.05-4.10) which resulted in top-line compression. More importantly, the sector's profitability and margin will also continue to be suppressed by intense competition in the European market, alongside additional capacity from China's worsening oversupply dynamics.
- **Finding ground from China's red ocean strategy; industry oversupply remains challenging.** Given the severity of the current US tariffs, China glove makers largely reduced their exposure to the US market and re-channelled their sales to regions like Europe and Asia with more competitive price-cutting strategies. This resulted in more challenging dynamics and declining profitability (lower ASP and margin) for non-US sales. Furthermore, some China players are exploring capacity expansion in other ASEAN countries such as Indonesia, Vietnam and Thailand, adding pressure to current oversupply dynamics.
- **Mixed operating matrixes in 1H26.** We expect earnings to chart a modest growth of 5-10% in 2026 off a low base, but to still be significantly lower than pre-pandemic earnings levels. Our assumptions factor in average ASPs of US\$20-22/'000 pieces in 2026-27. Despite anticipating better utilisation rate assumptions for 1H26, top-line numbers are likely to be compressed due to the weakening MYR/USD rate. This partially offsets the industry's margins improvement in 1H26 on the back of better cost efficiency and overall demand recovery particularly from US customers. Core profit margins are expected to chart a sequential recovery at 6-7% in 2025 (2022: 4.8%, 2019: 10.6%).
- **Lingering concerns about mid-long-term valuation de-rating.** The sector is now trading at -0.25SD below mean valuation on our 2026 earnings forecasts. With the permanent disruption caused by the influx of China players' capacity and their aggressive push to gain market share continuing to weigh on investors' sentiment, we opine that sector's valuations will eventually undergo a structural de-rating. The sector's risk-reward also appears neutral, with the glove companies under our coverage posing only moderate capital upside opportunities based on 2026's normalised earnings.

Peer Comparison

Company	Ticker	Rec	Share Price	Target	Market	PE			P/B			2026F Div Yield
			13 Jan 26 (RM)	Price (RM)	Cap (US\$m)	FY25F (x)	FY26F (x)	FY27F (x)	FY25F (x)	FY26F (x)	FY27F (x)	
Top Glove	TOPG MK	HOLD	0.64	0.57	1,255.0	67.2	25.8	21.0	1.1	1.1	1.1	2.2
Hartalega	HART MK	HOLD	0.995	0.90	841.5	61.2	31.2	24.9	0.9	0.9	0.9	2.0
Kossan Rubber	KRI MK	BUY	1.08	1.25	679.4	26.2	23.7	23.0	0.8	0.8	0.8	5.2

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT (Maintained)

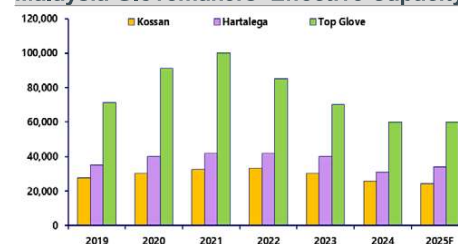
Analyst(s)

Jack Goh

jackgoh@uobkayhian.com

(03) 2147 1943

Malaysia Glovemakers' Effective Capacity



Source: Respective Companies, UOB Kay Hian

Sector Valuations (Pre-COVID-19)



Source: UOB Kay Hian

- US' higher tariffs on China medical-grade gloves have limited impact on Malaysian glovemakers' earnings.** Following US President Trump's reciprocal tariffs, 2026 tariffs on China's nitrile medical gloves are at 147%. Nevertheless, we assessed that China's medical gloves export volume within the US market in 2025 has dropped significantly since the earlier reciprocal tariffs. This is mainly due to ASPs no longer being competitive vs competitors even at the current 147% tariff rate. On a net basis, we estimate that Malaysia's market share of US medical glove imports may grow to 55-60% in 1H26 (from 25-30% in 2024).
- Potential downside risk from severe competition in Europe.** Outside of the US, we expect continuously aggressive ASP competition from China manufacturers in other regions. With the loss of US sales, we reckon intense competition from China manufacturers will hit Malaysian players' profitability and market share, besides capping ASP upside in non-US markets over a mid- to long-term horizon. ASPs for generic nitrile gloves in non-US market are US\$15-16/'000 pieces, much lower than the initial US\$19-20/'000 pieces.
- China glovemakers' regional expansion and capacity influx cutting deep into the race.** Following the upward revision of US tariffs, some China players are exploring capacity expansion in other ASEAN countries such as Indonesia, Vietnam and Thailand. Note that the current US tariffs in these neighbouring gloves manufacturing countries are comparable to Malaysia: Indonesia (19%); Vietnam (20%); and Thailand (36%). We also understand that one of the new production plants in Indonesia began operations in Dec 25, with an initial capacity of 5b-6b pieces annually. Despite such capacity being considered low compared with the US' annual medical gloves import of around 90b pieces, further capacity expansion in these countries may deepen the overcapacity issues and weigh on Malaysian glovemakers' profitability.
- Continual sell-down reflects fragile sentiment and structural de-rating.** With valuations rightsizing due to the less optimistic sector outlook, domestic glovemakers' share prices fell 52-75% in 2025. The steep share price action reflects the pessimistic sentiment in tandem with the sector's bleak outlook, with valuations now trading close to -0.5SD below historical mean valuations on 2026's lacklustre earnings. We opine that share price will stabilise at current levels given discounted valuations which are below book value, but a lack of immediate catalysts limit capital upside.

2025 Valuations And Implied Target Prices

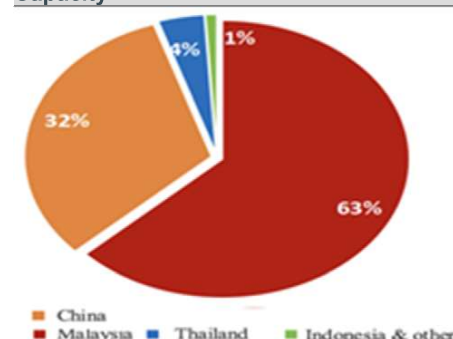
Companies	Valuations	2026F		
		EPS forecasts (sen)	Implied TP (RM)	% Upside from current share price
Hartalega	24x PE (-0.5SD below mean)	3.8	0.90	(9.5)
Top Glove	22x PE (-0.5SD below mean)	2.6	0.57	(10.9)
Kossan	14x ex-cash PE (-0.5SD mean)	4.6	1.25	14.7

Source: UOB Kay Hian

Valuation/Recommendation

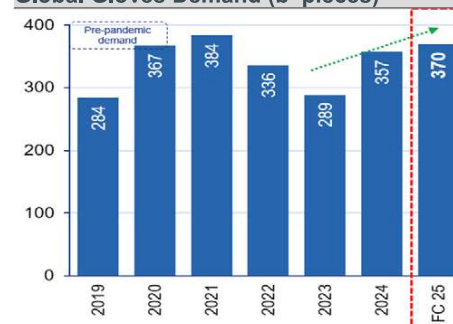
- Maintain MARKET WEIGHT on the Malaysian glove sector.** Despite downside for the sector becoming increasingly limited, the risk-reward payoff appears balanced at this juncture given the unfavourable mid-long-term industry dynamics.
- Maintain HOLD on Top Glove and Harta** with lower target prices of RM0.57 and RM0.90 respectively, as we adjust our earnings lower mainly to reflect lower MYR/USD assumptions.
- Our sector top pick is Kossan (BUY/Target: RM1.25)** which commands relatively discounted valuations and has a huge net cash position of RM1.56b (c.60sen/share or 55% of its current market cap).

Global Nitrile and Latex Gloves Production Capacity



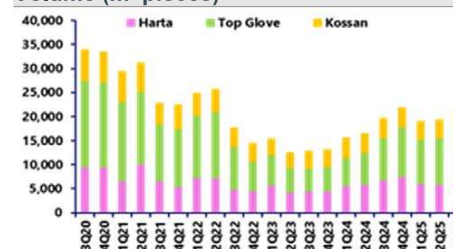
Source: OILCHEM

Global Gloves Demand (b' pieces)



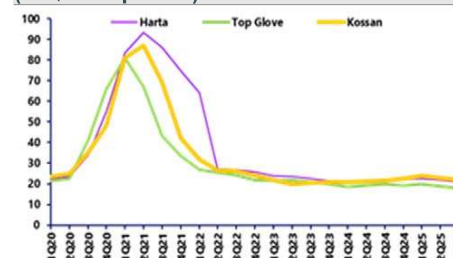
Source: Hartalega, International Trade Center (ITC)

Malaysia Glovemakers' Quarterly Sales Volume (m' pieces)



Source: Respective companies, UOB Kay Hian

Malaysia Glovemakers' Quarterly ASP (US\$/'000 pieces)



Source: Respective companies, UOB Kay Hian

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at the following link:
<https://research-api.uobkayhian.com/assets/disclaimer/d5827a1e-2994-46f9-828f-8f085dbbbdc2> or by scanning the QR code below:



The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."